

# The Chancellor's Summer thunderbolt

## The changes imposed on Housing Associations by the Summer budget and the effect on the Housebuilding industry

### The changes

The Chancellor introduced two major changes in his Summer budget that are having major repercussions for Housing Associations and Housebuilders. They are:

1. A reduction in rents that can be charged for Social Housing in England by 1% a year for 4 years. The government's stated aim in doing this is for social landlords to take a role in reducing the welfare bill.
2. An extension of the right to acquire. Existing tenants of local authorities receive a generous discount on the market value of their home if they wish to purchase them. Under the existing right to buy scheme, tenants receive a 50% discount (35% if a house) if they have been public sector tenants between 3 and 5 years, increased by an additional 2% every year (1% for a house) up to a maximum of 70%. Some Housing Associations already participate in the Social Homebuy Scheme which provides more limited discounts. The extension of the right to acquire will result in Housing Associations having to fund additional discounts that they are compelled to offer, of up to 650% more than the current position.

### The effect on Housing Associations

Both changes will clearly be a help for social tenants. They will, however, be a constraint on Housing Associations and this will have a dampening effect on Housing Associations being a force in driving housing growth and new jobs. David Orr, Chief Executive Officer of the National Housing Federation has stated that the combined effect of the changes will be:

1. a hit of up to £3.9 billion.
2. 27,000 new homes will not now be built, both by Housing Associations as developers and by Housebuilders building for Housing Associations.

Housing Associations' business plans and funding are based on the current rental forecasts. Notwithstanding that the 1% rent deductions will not come in to force until April 2016, Housing Associations are reviewing their portfolio valuations for accounting purposes. The impact on loan security valuations on the basis of existing use value should, however, be less severe if the freedoms and restrictions offered to mortgagees and successors-in-title from those mortgagees are taken into account.

The effect will be that Housing Associations will need to pay close attention to their accounts and surpluses, and may need to look at cost saving, including cutting operation costs and reducing their development programmes.

When looking at how the extension of the right to acquire will affect funding, Housing Associations are considering their proposals in that regard in light of the usefulness and viability of the existing Housing Association Financial Model in concert with the HCA, who have historically provided the majority of funding for Housing Associations.

### Effect on Housebuilders

Housebuilders have seen offers from Housing Associations for affordable housing on proposed development sites being substantially decreased or withdrawn. The immediate effect of this, of course, is a knock on effect on the land value that can be paid for sites, leading to uncomfortable conversations with landowners, or even withdrawal from prospective developments.

Over the last few years, Housebuilders have been keen to sign Housing Associations up to conditional sale and development agreements for affordable units, prior to obtaining planning permission and acquiring the site. Housing Associations will now be looking carefully at the conditionality within those agreements. In particular, they may look to see whether there is any wriggle room with regard to prices, on the basis that the prices were agreed on a financial model which does not take into account these changes.



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Overall, the immediate effect has been a stalling in the sector while Housing Associations have reviewed their budgets for the next few years, reviewed the prices that they can offer and, ultimately, whether they can proceed with projects. Meanwhile, Housebuilders have had to look again at viabilities and re-open discussions with the local planning authorities as to viability of development sites where planning has already been obtained, taking into account affordable housing requirements. This could potentially result in a reduction in the amount of affordable housing that can be offered on those upcoming developments.

Clearly, these adverse effects will not have been the objective of the government in introducing the restrictions. There is potential for legal challenge by Housing Associations in respect of the extension of the right to acquire and there have been murmurings that the government is reviewing the position. Until that happens the industry will have to assume the changes are here to stay, and factor the changes into any appraisals and discussions with landowners and planning authorities.

If you would like to discuss any of the issues raised in this update, please contact:



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